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State Dept. review completed

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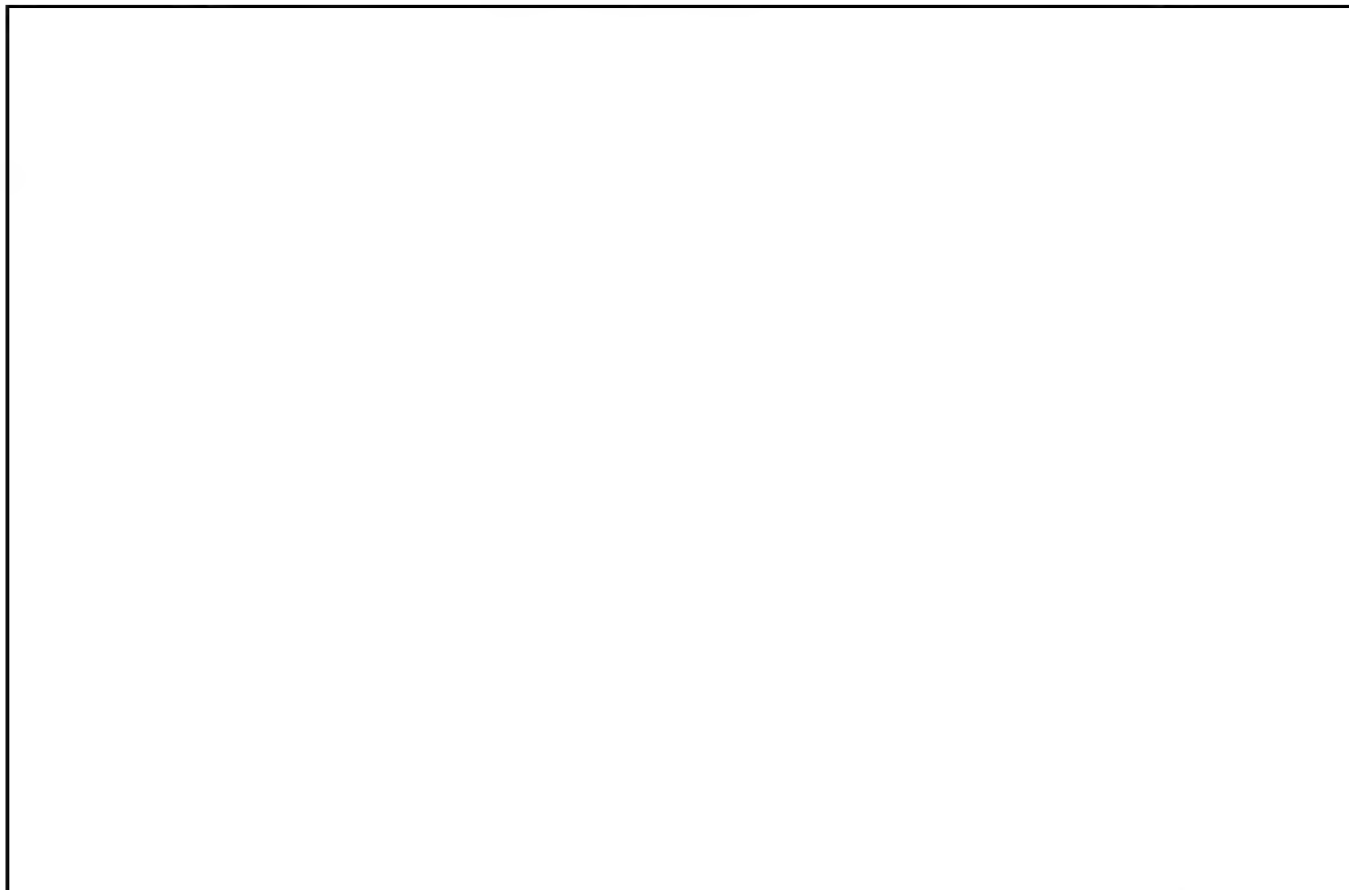
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SOUTHEAST ASIA

**2. Indonesian cabinet's initial policy statement avoids controversial issues:**

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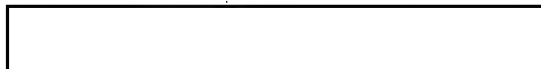


A moderate policy statement presented to the Indonesian parliament on 25 August by Prime Minister Ali avoided or compromised on questions likely to provoke vigorous parliamentary opposition. Significant omissions included the controversial issues of Soviet bloc trade, foreign investment, foreign aid, and the split in the army.

The embassy comments that these issues appear to be waning in political importance, as the chief purpose for their exploitation was to bring about the fall of the former moderate government.

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Comment: Had so moderate a program been proposed during the cabinet negotiations, the Masjumi-National Party coalition, on which former cabinets were based, could easily have been reconstructed.

The avoidance of sensitive policy questions may be continued by the new government in order to maintain itself in office. Such a stand might well also be intended to permit the inconspicuous infiltration of pro-Communist elements throughout the government, the army and the police. The trend now appears to be toward such dangerous penetration rather than a sudden Communist take-over or the early imposition of extreme leftist policies.

SOUTH ASIA

3. Nehru refuses to supply assurances required by Battle Act:

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[REDACTED] In response to a direct question by Ambassador Allen on 25 August as to whether India would inform the United States in advance of its intentions to trade with Orbit countries in commodities barred by the Battle Act, Indian prime minister Nehru replied that India could not undertake to consult with the United States on every export application which might be affected in some way by the Battle Act.

Comment: India will probably continue its past policy of strictly limiting the export of strategic commodities to Orbit countries through administrative controls, though these controls may be relaxed somewhat as a result of the armistice in Korea. It is unlikely, however, that India will provide the United States with firm assurances or prior notice of its intentions in this regard.

WESTERN EUROPE

4. Western powers reconcile views on four-power conference on Germany:

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[REDACTED] Agreement has been reached among the United States, Britain, and France on a compromise text for a reply to the Soviet

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notes of 4 and 15 August on Germany. The Soviet Union will be asked to attend a foreign ministers' conference in Lugano on 15 October for discussion of the German and

Austrian problems, the solution of which might pave the way for fruitful discussion of other world problems.

Although Chancellor Adenauer has previously insisted that the Western reply be withheld until 4 September, two days prior to the West German elections, the Western powers hope he will agree to delivery by 1 September. This would show the West's confidence in the strength of its position.

Comment: The agreed note represents a reconciliation of diverging Western views, particularly regarding British desires that the door not be closed to the discussion of general world problems. Although conceding to the Soviet view that the question of a German peace treaty may be discussed, the Western powers assert that the conference should concentrate first on the question of free elections and the status of any future all-German government.

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